

**SURREBUTTAL TESTIMONY AND EXHIBITS OF
CHRISTINA L. SEALE
ON BEHALF OF
THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF
DOCKET NO. 2018-82-S
IN RE: APPLICATION OF PALMETTO WASTEWATER RECLAMATION,
LLC FOR ADJUSTMENT OF RATES AND CHARGES**

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Christina L. Seale. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina 29201. I am employed by the State of South Carolina as a Senior Auditor, in the Audit Department of the South Carolina Office of Regulatory Staff (“ORS”).

Q. ARE YOU THE SAME CHRISTINA SEALE WHO PRESENTED DIRECT TESTIMONY IN THIS DOCKET?

A. Yes. I pre-filed direct testimony and seven exhibits with the Public Service Commission of South Carolina on March 12, 2019.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A. The purpose of my surrebuttal testimony is to further explain ORS’s calculation of property taxes (ORS’s adjustment #4B) as included in taxes other than income and ORS’s calculation of rate case expenses (ORS’s adjustment #2E) as included in operating expenses. ORS updated surrebuttal audit exhibits for an increase in the weighted average cost of debt to 5.23%.

Q. PLEASE EXPLAIN IN FURTHER DETAIL ORS'S CALCULATION OF PROPERTY TAXES IN ORS ADJUSTMENT #4B.

A. My direct testimony and exhibits, reflected ORS's adjustment to property taxes for new capital expenditures incurred by Palmetto Wastewater Reclamation, LLC ("PWR" or "Company"). ORS computed the property tax adjustment by applying the Company's proposed assessment ratio and millage rates to the net plant in service of \$10,958,486, which can be found in Column (3) on Surrebuttal Audit Exhibit CLS-1. ORS calculated total property taxes of \$606,618 on net plant in service as of January 31, 2019, less the per book property taxes of \$524,274 for an adjustment of \$82,344. Total property taxes of \$606,618 were included in the calculation of net income for return in Column (3) on Surrebuttal Audit Exhibit CLS-1, before applying the proposed revenue increase.

Q. HOW DOES THE PROPERTY TAX ADJUSTMENT #4B AFFECT THE NET INCOME FOR RETURN?

A. The property tax adjustment increases expenses, which in turn, decreases the net income for return. If the property tax adjustment was not included in ORS's adjustments, the total ORS proposed increase would have been less.

Q. DO YOU AGREE WITH COMPANY WITNESS DADAY'S CHARACTERIZATION OF ORS'S RECOMMENDATION WHEN HE STATES IN HIS REBUTTAL TESTIMONY, "ORS BELIEVES IT IS APPROPRIATE FOR A UTILITY TO HAVE RATES SET WHICH DO NOT ALLOW IT TO RECOVER THE INCREASED PROPERTY TAXES ON NEW PLANT THAT IS USED AND USEFUL IN PROVIDING SEWER SERVICE TO THE PUBLIC"?

1 **A.** No, I do not agree with Company witness Daday's characterization that ORS's
2 recommendations do not allow recovery of the Company's property tax obligations. ORS
3 included an adjustment to increase property taxes for the new plant in service in its
4 calculation of net income for return, which is used in the calculation of return on equity.
5 In fact, ORS accepted the Company's proposed methodology in its calculation with the
6 exception of ORS including actual net plant in service that is used and useful in providing
7 sewer service, versus estimated net plant in service, as the Company proposed. ORS's
8 adjustment to property taxes of \$82,344 only differs from the Company's proposed
9 property tax adjustment of \$83,572, by (\$1,228). Based on ORS's recommendations, the
10 Company will receive full recovery of its property tax obligations.

11 **Q. PLEASE EXPLAIN ORS'S POSITION REGARDING UPDATED RATE CASE**
12 **EXPENSES - ORS ADJUSTMENT #2E.**

13 **A.** Company witnesses Daday and Stone, in their rebuttal testimonies, state that ORS's
14 proposed increase does not reflect the most recent rate case expense total since additional
15 rate case expenses have been incurred since the completion of ORS's audit. ORS
16 recognizes the Company will continue to incur expenses up to and through the hearing.
17 ORS does not object to an additional update to rate case expenses subject to ORS's
18 verification.

19 ORS witness Sandonato addresses the Company's rebuttal in regards to ORS's
20 adjustment to remove rate case expenses of \$14,850 for Tangibl Group, Inc.

21 **Q. HOW DOES THE CHANGE IN THE COMPANY'S WEIGHTED AVERAGE**
22 **COST OF DEBT RATE TO 5.23% AFFECT INTEREST EXPENSE?**

A. The change in the weighted average cost of debt rate affects ORS's interest expense adjustment #15, by increasing total interest expense by \$8,356.

Q. DID ORS UPDATE ANY OTHER ADJUSTMENTS AS PART OF SURREBUTTAL TESTIMONY?

A. Yes. ORS updated all fall-out adjustments based on the updated interest on long-term debt. These adjustments include state and federal income tax accounting and pro forma adjustments and revenues, bad debt expense, utility regulatory assessment fee and income taxes for ORS's proposed increase. In addition, ORS also updated Audit Exhibit CLS-7 that details the operating experience, operating margin and rate base using PWR's proposed rates.

Q. PLEASE IDENTIFY ADDITIONAL EXHIBITS ATTACHED TO YOUR SURREBUTTAL TESTIMONY.

A. I have attached the following exhibits to my surrebuttal testimony to reflect the update to ORS Adjustment #15 for the change in the weighted average cost of debt rate to 5.23% and the resulting changes to fall out adjustments:

- Surrebuttal Audit Exhibit CLS-1: Operating Experience, Rate Base and Rate of Return Reflecting ORS's Proposed Increase
- Surrebuttal Audit Exhibit CLS-2: Explanation of Accounting and Pro Forma Adjustments
- Surrebuttal Audit Exhibit CLS-3: Computation of Depreciation and Amortization Expense (Alpine and Woodland Utilities Service Areas)
- Surrebuttal Audit Exhibit CLS-4: Computation of Income Taxes
- Surrebuttal Audit Exhibit CLS-5: Cash Working Capital

- Surrebuttal Audit Exhibit CLS-6: Weighted Cost of Capital
- Surrebuttal Audit Exhibit CLS-7: Operating Experience, Rate Base and Rate of Return Reflecting the Company's Proposed Increase

Q. WILL YOU UPDATE YOUR SURREBUTTAL TESTIMONY BASED ON INFORMATION THAT BECOMES AVAILABLE?

A. Yes. ORS fully reserves the right to revise its recommendations via supplemental surrebuttal testimony should new information not previously provided by the Company, or other sources, become available.

Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A. Yes, it does.

Palmetto Wastewater Reclamation, LLC
Docket No. 2018-82-S
Operating Experience, Rate Base and Rate of Return Reflecting ORS's Proposed Increase
For the Test Year Ended August 31, 2018

<u>Description</u>	(1) <u>Per Application</u> \$	(2) <u>Accounting & Pro Forma Adjustments</u> \$	(3) <u>After Accounting & Pro Forma Adjustments</u> \$	(4) <u>ORS's Proposed Increase</u> \$	(5) <u>After Proposed Increase</u> \$
<u>Utility Operating Revenues:</u>					
Operating Revenues	3,257,650	103,810 (1)	3,361,460	122,465 (16)	3,483,925
<u>Total Utility Operating Revenues</u>	<u>3,257,650</u>	<u>103,810</u>	<u>3,361,460</u>	<u>122,465</u>	<u>3,483,925</u>
<u>Utility Operating Expenses:</u>					
Operating Expenses	946,889	517,290 (2)	1,464,179	1,225 (17)	1,465,404
Depreciation and Amortization	521,507	54,669 (3)	576,176	0	576,176
Taxes Other Than Income Taxes	580,530	64,844 (4)	645,374	578 (18)	645,952
Income Taxes	53,887	57,314 (5)	111,201	30,105 (19)	141,306
<u>Total Utility Operating Expenses</u>	<u>2,102,813</u>	<u>694,117</u>	<u>2,796,930</u>	<u>31,908</u>	<u>2,828,838</u>
<u>Net Utility Operating Income (Loss)</u>	<u>1,154,837</u>	<u>(590,307)</u>	<u>564,530</u>	<u>90,557</u>	<u>655,087</u>
Add: Other Income - AFUDC	16,578	(16,578) (6)	0	0	0
Less: Amortization of Debt Expense	35,437	(35,437) (7)	0	0	0
Add: Amortization of Excess Revenues & EDIT	0	0	0	90,898 (20)	90,898
<u>Net Income (Loss) for Return</u>	<u>1,135,978</u>	<u>(571,448)</u>	<u>564,530</u>	<u>181,455</u>	<u>745,985</u>
<u>Original Cost Rate Base:</u>					
Plant in Service	14,464,745	599,616 (8)	15,064,361	0	15,064,361
Accumulated Depreciation	(3,607,582)	(209,644) (9)	(3,817,226)	0	(3,817,226)
Contributions in Aid of Construction (CIAC)	(692,107)	(4,251) (10)	(696,358)	0	(696,358)
Accumulated Amortization of CIAC	403,288	4,421 (11)	407,709	0	407,709
Net Plant	10,568,344	390,142	10,958,486	0	10,958,486
Accumulated Deferred Income Taxes	(974,895)	(1,564) (12)	(976,459)	0	(976,459)
Excess Deferred Income Taxes (EDIT)	0	(456,531) (13)	(456,531)	0	(456,531)
Materials and Supplies	8,138	0	8,138	0	8,138
Prepayments	57,529	0	57,529	0	57,529
Cash Working Capital	286,541	(103,519) (14)	183,022	0	183,022
<u>Total Rate Base</u>	<u>9,945,657</u>	<u>(171,472)</u>	<u>9,774,185</u>	<u>0</u>	<u>9,774,185</u>
<u>Return on Rate Base</u>	<u>11.42%</u>		<u>5.78%</u>		<u>7.63%</u>
<u>Operating Margin</u>	<u>6.62%</u>		<u>9.95%</u>		<u>14.81%</u>
<u>Interest Expense</u>	<u>920,369</u>	<u>(690,334) (15)</u>	<u>230,035</u>	<u>0</u>	<u>230,035</u>

Palmetto Wastewater Reclamation, LLC
Docket No. 2018-82-S
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended August 31, 2018

ORS	PWR				
Adj. #	Adj. #	Description	ORS	PWR	
<u>Accounting and Pro forma Adjustments</u>					
(1)		<u>Operating Revenues</u>			
(1A)	(1)	To adjust residential revenues to reflect the most recent equivalent residential connections as calculated by the ORS Utility Rates Department.	\$ (4,051)	\$ (1,153)	
(1B)	(2)	To adjust residential-mobile home park revenues to reflect the most recent equivalent residential connections as calculated by the ORS Utility Rates Department.	15,759	15,759	
(1C)	(1), (2)	To adjust commercial revenues to reflect the most recent equivalent residential connections as calculated by the ORS Utility Rates Department.	(26,511)	(28,175)	
(1D)	(1), (2), & (3)	To adjust multiple family dwelling revenues to reflect the most recent equivalent residential connections as calculated by the ORS Utility Rates Department.	113,244	(9,300)	
(1E)		To reflect adjustments to other revenues at the end of the test year. This adjustment was provided by the ORS Utility Rates Department.	5,369	0	
(1)		<u>Total Operating Revenues</u>	\$ <u>103,810</u>	\$ <u>(22,869)</u>	
(2)		<u>Operating Expenses</u>			
(2A)	(4)	To include legal and accounting costs in test year expenses.	\$ 7,275	\$ 7,275	
(2B)	(5)	To annualize management fees for the ESG Operations Contract.	11,428	8,814	
(2C)	(6)	To include cost related to software and support for camera truck.	725	938	
(2D)	(7)	To annualize insurance for the test year.	(7,455)	762	
(2E)	(8)	To amortize current rate case expenses over three years.	27,114	66,575	
(2F)	(9)	To reflect bad debt expense at 1% of total revenue at present rates.	(48,261)	(49,528)	

Palmetto Wastewater Reclamation, LLC
Docket No. 2018-82-S
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended August 31, 2018

ORS Adj. #	PWR Adj. #	Description	ORS	PWR
(2G)	(10)	To allocate allowable Ni America overhead costs to PWR.	544,402	549,703
(2H)		To remove expenses incurred outside of the test year.	(15,871)	0
(2I)		To remove nonallowable expenditures.	(2,067)	0
(2)		<u>Total Operating Expenses</u>	\$ 517,290	\$ 584,539
(3)		<u>Depreciation and Amortization</u>		
(3A)	(11)	To adjust depreciation expense to reflect new capital expenditures and other adjustments to plant in service.	\$ 58,067	\$ 55,186
(3B)	(12)	To adjust amortization of contributions in aid of construction.	(3,398)	(9,097)
(3)		<u>Total Depreciation and Amortization</u>	\$ 54,669	\$ 46,089
(4)		<u>Taxes Other Than Income Taxes</u>		
(4A)	(13)	To adjust utility regulatory assessment fees after the accounting and pro forma adjustments using a rate of 0.471772446%.	\$ (17,500)	\$ (18,190)
(4B)	(14)	To adjust property taxes to reflect new capital expenditures and adjusted net plant in service.	82,344	83,572
(4)		<u>Total Taxes Other Than Income Taxes</u>	\$ 64,844	\$ 65,382
(5)		<u>Income Taxes</u>		
(5A)	-	To adjust state income taxes on pro forma income at 5%.	15,952	677
(5B)	-	To adjust federal income taxes on pro forma income at 21%.	\$ 41,362	\$ 2,702
(5)		<u>Total Income Taxes</u>	\$ 57,314	\$ 3,379
(6)	(15)	<u>Other Income - AFUDC</u>		
		To remove AFUDC from test year income.	\$ (16,578)	\$ (16,578)

Palmetto Wastewater Reclamation, LLC
Docket No. 2018-82-S
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended August 31, 2018

ORS Adj. #	PWR Adj. #	Description	ORS	PWR
(7)	(16)	<u>Amortization of Debt Expense</u> To remove the amortization of debt expense. Debt expense is included in the calculation of the weighted average cost of debt for the calculation of interest expense.	\$ <u>(35,437)</u>	\$ <u>(35,437)</u>
(8)	-	<u>Plant in Service</u> To adjust gross plant in service as of 1/31/19. See Audit Exhibit CLS-3.	\$ <u>599,616</u>	\$ <u>594,730</u>
(9)	-	<u>Accumulated Depreciation</u> To adjust accumulated depreciation as of 1/31/19. See Audit Exhibit CLS-3.	\$ <u>(209,644)</u>	\$ <u>0</u>
(10)	-	<u>Contributions in Aid of Construction (CIAC)</u> To adjust contributions in aid of construction as of 1/31/19. See Audit Exhibit CLS-3.	\$ <u>(4,251)</u>	\$ <u>0</u>
(11)	-	<u>Accumulated Amortization of CIAC</u> To adjust the accumulated amortization of contributions in aid of construction as of 1/31/19. See Audit Exhibit CLS-3.	\$ <u>4,421</u>	\$ <u>0</u>
(12)	-	<u>Accumulated Deferred Income Taxes</u> To adjust accumulated deferred income taxes.	\$ <u>(1,564)</u>	\$ <u>(1,564)</u>
(13)	-	<u>Excess Deferred Income Taxes (EDIT)</u> To adjust rate base for the creation of an excess tax collection liability resulting from lower federal tax rates as calculated by the ORS Utility Rates Department.	\$ <u>(456,531)</u>	\$ <u>0</u>
(14)	-	<u>Cash Working Capital</u> To adjust cash working capital after accounting and pro forma adjustments. See Audit Exhibit CLS-5.	\$ <u>(103,519)</u>	\$ <u>57,887</u>

Palmetto Wastewater Reclamation, LLC
Docket No. 2018-82-S
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended August 31, 2018

ORS Adj. #	PWR Adj. #	Description	ORS	PWR
(15)	(16)	<u>Interest Expense</u> To synchronize interest expense with the portion of rate base financed by debt.	\$ (690,334)	\$ (696,982)
<u>ORS's Proposed Increase</u>				
(16)		<u>Operating Revenues</u>		
(16A)	(17)	To adjust residential revenues to reflect the proposed rates as calculated by the ORS Utility Rates Department.	\$ 20,147	\$ 106,533
(16B)	(17)	To adjust residential-mobile home park revenues to reflect the proposed rates as calculated by the ORS Utility Rates Department.	\$ 588	\$ 3,054
(16C)	(17)	To adjust commercial revenues to reflect the proposed rates as calculated by the ORS Utility Rates Department.	29,840	156,633
(16D)	(17)	To adjust multiple family dwelling revenues to reflect the proposed rates as calculated by the ORS Utility Rates Department.	70,973	349,578
(16E)	-	To adjust other revenues to reflect the proposed rates as calculated by the ORS Utility Rates Department.	917	0
(16)		<u>Total Operating Revenues</u>	\$ <u>122,465</u>	\$ <u>615,798</u>
<u>Operating Expenses</u>				
(17)	(18)	To adjust bad debt expense at 1% of the total proposed increase to revenues at proposed rates.	\$ <u>1,225</u>	\$ <u>6,158</u>
(18)	(19)	<u>Taxes Other Than Income Taxes</u> To adjust utility regulatory assessment fees after the proposed increase adjustments using a rate of 0.471772446%.	\$ <u>578</u>	\$ <u>2,905</u>

Palmetto Wastewater Reclamation, LLC
Docket No. 2018-82-S
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended August 31, 2018

ORS Adj. #	PWR Adj. #	Description	ORS	PWR
(19)		<u>Income Taxes</u>		
(19A)	(21)	To adjust state income taxes on the proposed increase income at 5%.	6,033	30,337
(19B)	(20)	To adjust federal income taxes on the proposed increase income at 21%.	\$ 24,072	\$ 121,043
(19)		<u>Total Income Taxes</u>	<u>\$ 30,105</u>	<u>\$ 151,380</u>
(20)		<u>Amortization of Excess Revenues and EDIT</u>		
(20A)		To increase income by the annual amortization of excess revenues due to the Tax Cuts and Jobs Act. This adjustment was provided by the ORS Utility Rates Department.	\$ 77,236	\$ 0
(20B)		To increase income by the annual amortization of excess deferred income taxes due to the Tax Cuts and Jobs Act. This adjustment was provided by the ORS Utility Rates Department.	13,662	0
(20)		<u>Total Amortization of Excess Revenues and EDIT</u>	<u>\$ 90,898</u>	<u>\$ 0</u>

Palmetto Wastewater Reclamation, LLC
Docket No. 2018-82-S
Computation of Depreciation and Amortization Expense (Alpine Utilities and Woodland Utilities Service Areas)
For the Test Year Ended August 31, 2018

Description	PWR Plant in Service @ 1/31/19	ORS Adjustments	Less: Fully Depreciated Plant	ORS Plant in Service for Depreciation Expense	Service Life Years	Depreciation Rate %	Depreciation Expense \$
<u>Collection Sewers - Gravity</u>	\$	\$	\$	\$			\$
PVC - 4" to 30"	5,305,167	-	-	5,305,167	45	2.22%	117,775
DIP - 4" to 30"	25,736	-	-	25,736	45	2.22%	571
Manholes	548,174	-	-	548,174	30	3.33%	18,254
	5,879,077	-	-	5,879,077			136,600
<u>Collection System - Services to Customers</u>							
Services	548,519	-	-	548,519	38	2.63%	14,426
Elder Valves	138,398	-	-	138,398	38	2.63%	3,640
Grease Traps	3,411	-	-	3,411	38	2.63%	90
	690,328	-	-	690,328			18,156
<u>Flow Measuring Devices</u>							
Flow Measuring Devices	672	-	(672)	-	5	20.00%	-
Total Collection Plant	6,570,077	-	(672)	6,569,405			154,756
<u>Pumping Plant</u>							
Pumping Equipment	437,423	-	(56,870)	380,553	18	5.56%	21,159
Total Pumping Plant	437,423	-	(56,870)	380,553			21,159
<u>Treatment & Disposal Plant</u>							
Land and Land Rights	57,112	-	-	57,112			N/A
Structures & Improvements	201,386	-	(1,315)	200,071	32	3.13%	6,262
Power Generating Equipment	55,994	-	-	55,994	20	5.00%	2,800
Treatment & Disposal Equipment	6,530,228	-	(399,752)	6,130,476	18	5.56%	340,854
Outfall Sewer Lines	397,571	-	(379,716)	17,855	30	3.33%	595
Other Plant and Miscellaneous Equipment	20,047	-	(20,047)	-	18	5.56%	-
Total Treatment and Disposal Plant	7,262,338	-	(800,830)	6,461,508			350,511
<u>General Plant</u>							
Structures and Improvements	107,538	-	(1,526)	106,012	32	3.13%	3,318
<u>Office Furniture and Equipment</u>							
Office Furniture and Equipment	5,042	-	-	5,042	15	6.67%	336
Computer and Software	31,533	-	(14,481)	17,052	6	16.67%	2,843
	36,575	-	(14,481)	22,094			3,179
Tools, Shop, and Garage Equipment	7,822	-	-	7,822	16	6.25%	489
Laboratory Equipment	5,361	-	-	5,361	15	6.67%	358
Power Operated Equipment	685,595	(102,944)	-	582,651	12	8.33%	48,535
Communication Equipment	28,817	-	-	28,817	10	10.00%	2,882
Miscellaneous Equipment	25,759	-	-	25,759	15	6.67%	1,718
Total General Plant	897,467	(102,944)	(16,007)	778,516			60,479
Total Plant in Service	15,167,305	(102,944)	(874,379)	14,189,982			586,905
Less: Per Book Depreciation Expense							528,838
ORS Adjustment #3 - Depreciation Expense							58,067
Accumulated Depreciation as of 1/31/19				(3,843,384)			
ORS Adjustment				26,158			
Total Adjusted Accumulated Depreciation as of 1/31/19				(3,817,226)			

Palmetto Wastewater Reclamation, LLC
Docket No. 2018-82-S
Computation of Depreciation and Amortization Expense (Alpine Utilities and Woodland Utilities Service Areas)
For the Test Year Ended August 31, 2018

Description	PWR Contributions in Aid of Construction @ 1/31/19	ORS Adjustments	Less: Fully Amortized CIAC	ORS CIAC for Amortization Expense	Service Life Years	Amortization Rate %	Amortization Expense \$
<u>Collection Sewers - Gravity</u>	\$	\$	\$	\$			\$
PVC - 4" to 30"	(530,706)	-	266,045	(264,661)	45	2.22%	(5,875)
DIP - 4" to 30"	(25,736)	-	-	(25,736)	45	2.22%	(571)
Manholes	(64,546)	-	-	(64,546)	30	3.33%	(2,149)
	(620,988)	-	266,045	(354,943)			(8,595)
<u>Collection System - Services to Customers</u>							
Services	(36,319)	-	-	(36,319)	38	2.63%	(955)
Elder Valves	(34,301)	-	-	(34,301)	38	2.63%	(902)
Grease Traps	-	-	-	-	38	2.63%	-
	(70,620)	-	-	(70,620)			(1,857)
<u>Flow Measuring Devices</u>							
Flow Measuring Devices	-	-	-	-	5	20.00%	-
Total Collection Plant	(691,608)	-	266,045	(425,563)			(10,452)
<u>Pumping Plant</u>							
Pumping Equipment	(653)	-	-	(653)	18	5.56%	(36)
Total Pumping Plant	(653)	-	-	(653)			(36)
<u>Treatment & Disposal Plant</u>							
Land and Land Rights	-	-	-	-			N/A
Structures & Improvements	-	-	-	-	32	3.13%	-
Power Generating Equipment	-	-	-	-	20	5.00%	-
Treatment & Disposal Equipment	(2,847)	-	-	(2,847)	18	5.56%	(158)
Outfall Sewer Lines	-	-	-	-	30	3.33%	-
Other Plant and Miscellaneous Equipment	-	-	-	-	18	5.56%	-
Total Treatment and Disposal Plant	(2,847)	-	-	(2,847)			(158)
<u>General Plant</u>							
Structures and Improvements	-	-	-	-	32	3.13%	-
<u>Office Furniture and Equipment</u>							
Office Furniture and Equipment	-	-	-	-	15	6.67%	-
Computer and Software	-	-	-	-	6	16.67%	-
	-	-	-	-			-
Tools, Shop, and Garage Equipment	-	-	-	-	16	6.25%	-
Laboratory Equipment	-	-	-	-	15	6.67%	-
Power Operated Equipment	-	-	-	-	12	8.33%	-
Communication Equipment	-	-	-	-	10	10.00%	-
Miscellaneous Equipment	(1,250)	-	-	(1,250)	15	6.67%	(83)
Total General Plant	(1,250)	-	-	(1,250)			(83)
Total Plant in Service	(696,358)	-	266,045	(430,313)			(10,729)
Less: Per Book Amortization-Contributions in Aid of Construction							(7,331)
ORS Adjustment #3B - Amortization-Contributions in Aid of Construction							(3,398)
Accumulated Amortization as of 1/31/19				407,709			

Surrebuttal Audit Exhibit CLS-4

Palmetto Wastewater Reclamation, LLC
Docket No. 2018-82-S
Computation of Income Taxes
For the Test Year Ended August 31, 2018

After Accounting & Pro Forma Adjustments

	\$
Operating Revenues	3,361,460
Operating Expenses	<u>2,685,729</u>
Net Operating Income Before Taxes	675,731
Less: Annualized Interest Expense	<u>230,035</u>
Taxable Income - State	445,696
State Income Tax %	<u>5.0%</u>
State Income Taxes	22,285
Less: State Income Taxes Per Book	<u>6,333</u>
ORS Adjustment #5A - State Income Taxes	<u>15,952</u>
Taxable Income - Federal	423,411
Federal Income Taxes %	<u>21.0%</u>
Federal Income Taxes	88,916
Less: Federal Income Taxes Per Book	<u>47,554</u>
ORS Adjustment #5B - Federal Income Taxes	<u>41,362</u>
Total Adjustment to Income Taxes	<u>57,314</u>

After ORS's Proposed Increase

	\$
Operating Revenues	3,483,925
Operating Expenses	<u>2,687,532</u>
Net Operating Income Before Taxes	796,393
Less: Annualized Interest Expense	<u>230,035</u>
Taxable Income - State	566,358
State Income Tax %	<u>5.0%</u>
State Income Taxes	28,318
Less: State Income Taxes As Adjusted	<u>22,285</u>
ORS Adjustment #19A - State Income Taxes	<u>6,033</u>
Taxable Income - Federal	538,040
Federal Income Taxes %	<u>21.0%</u>
Federal Income Taxes	112,988
Less: Federal Income Taxes As Adjusted	<u>88,916</u>
ORS Adjustment #19B - Federal Income Taxes	<u>24,072</u>
Total Adjustment to Income Taxes	<u>30,105</u>

Palmetto Wastewater Reclamation, LLC
Docket No. 2018-82-S
Cash Working Capital
For the Test Year Ended August 31, 2018

After Accounting & Pro Forma Adjustments

Operating Expenses	1,464,179
Allowable Rate	<u>12.50%</u>
Computed Cash Working Capital	183,022
Less: Cash Working Capital - Application Per Books	<u>286,541</u>
ORS Adjustment #14 - Cash Working Capital	<u><u>(103,519)</u></u>

Palmetto Wastewater Reclamation, LLC
Docket No. 2018-82-S
Weighted Cost of Capital
For the Test Year Ended August 31, 2018

Surrebuttal Audit Exhibit CLS-6

Description	Application Per Books					After Accounting and Pro forma Adjustments					After ORS's Proposed Increase				
	Capital Structure	Ratio	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income			Rate Base	Embedded Cost/Return	Overall Cost/Return	Income			
						For	Return *	Return *				For	Return *		
Long-Term Debt	\$ 15,982,546	45.00%	\$ 4,475,546	5.23%	2.35%	\$ 234,071	\$ 4,398,383	5.23%	2.35%	\$ 230,035	\$ 4,398,383	5.23%	2.35%	\$ 230,035	
Members' Equity	19,534,223	55.00%	5,470,111	16.49%	9.07%	901,907	5,375,802	6.22%	3.43%	334,495	5,375,802	9.60%	5.28%	515,950	
Totals	\$ 35,516,769	100.00%	\$ 9,945,657		11.42%	\$ 1,135,978	\$ 9,774,185		5.78%	\$ 564,530	\$ 9,774,185		7.63%	\$ 745,985	

Palmetto Wastewater Reclamation, LLC
Docket No. 2018-82-S
Operating Experience, Rate Base and Rate of Return Reflecting the Company's Proposed Increase
For the Test Year Ended August 31, 2018

<u>Description</u>	(1) <u>Per Application</u> \$	(2) <u>Accounting & Pro Forma Adjustments</u> \$	(3) <u>After Accounting & Pro Forma Adjustments</u> \$	(4) <u>Company's Proposed Increase</u> \$	(5) <u>After Proposed Increase</u> \$
<u>Utility Operating Revenues:</u>					
Operating Revenues	3,257,650	103,810 (1)	3,361,460	644,107 (16)	4,005,567
<u>Total Utility Operating Revenues</u>	<u>3,257,650</u>	<u>103,810</u>	<u>3,361,460</u>	<u>644,107</u>	<u>4,005,567</u>
<u>Utility Operating Expenses:</u>					
Operating Expenses	946,889	517,290 (2)	1,464,179	6,441 (17)	1,470,620
Depreciation and Amortization	521,507	54,669 (3)	576,176	0	576,176
Taxes Other Than Income Taxes	580,530	64,844 (4)	645,374	3,039 (18)	648,413
Income Taxes	53,887	57,314 (5)	111,201	158,339 (19)	269,540
<u>Total Utility Operating Expenses</u>	<u>2,102,813</u>	<u>694,117</u>	<u>2,796,930</u>	<u>167,819</u>	<u>2,964,749</u>
<u>Net Utility Operating Income (Loss)</u>	<u>1,154,837</u>	<u>(590,307)</u>	<u>564,530</u>	<u>476,288</u>	<u>1,040,818</u>
Add: Other Income - AFUDC	16,578	(16,578) (6)	0	0	0
Less: Amortization of Debt Expense	35,437	(35,437) (7)	0	0	0
Add: Amortization of Excess Revenues & EDIT	0	0	0	90,898 (20)	90,898
<u>Net Income (Loss) for Return</u>	<u>1,135,978</u>	<u>(571,448)</u>	<u>564,530</u>	<u>567,186</u>	<u>1,131,716</u>
<u>Original Cost Rate Base:</u>					
Plant in Service	14,464,745	599,616 (8)	15,064,361	0	15,064,361
Accumulated Depreciation	(3,607,582)	(209,644) (9)	(3,817,226)	0	(3,817,226)
Contributions in Aid of Construction (CIAC)	(692,107)	(4,251) (10)	(696,358)	0	(696,358)
Accumulated Amortization of CIAC	403,288	4,421 (11)	407,709	0	407,709
Net Plant	10,568,344	390,142	10,958,486	0	10,958,486
Accumulated Deferred Income Taxes	(974,895)	(1,564) (12)	(976,459)	0	(976,459)
Excess Deferred Income Taxes (EDIT)	0	(456,531) (13)	(456,531)	0	(456,531)
Materials and Supplies	8,138	0	8,138	0	8,138
Prepayments	57,529	0	57,529	0	57,529
Cash Working Capital	286,541	(103,519) (14)	183,022	0	183,022
<u>Total Rate Base</u>	<u>9,945,657</u>	<u>(171,472)</u>	<u>9,774,185</u>	<u>0</u>	<u>9,774,185</u>
<u>Return on Rate Base</u>	<u>11.42%</u>		<u>5.78%</u>		<u>11.58%</u>
<u>Operating Margin</u>	<u>6.62%</u>		<u>9.95%</u>		<u>22.51%</u>
<u>Interest Expense</u>	<u>920,369</u>	<u>(690,334) (15)</u>	<u>230,035</u>	<u>0</u>	<u>230,035</u>